

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

<b>Great Northern Utilities, Inc.</b>	:	
	:	
<b>Proposed General Increase in Water Rates</b>	:	
<b>(Tariffs filed December 22, 2010)</b>	:	
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<b>Camelot Utilities, Inc.</b>	:	<b>11-0059</b>
	:	
<b>Proposed General Increase in Water and Sewer</b>	:	<b>11-0141</b>
<b>Rates</b>	:	
<b>(Tariffs filed December 30, 2010)</b>	:	<b>11-0142</b>
	:	<b>(Cons.)</b>
<b>Lake Holiday Utilities Corporation</b>	:	
	:	
<b>Proposed General Increase in Water Rates</b>	:	
<b>(Tariffs filed December 30, 2010)</b>	:	

**DRAFT ORDER**

**By the Commission:**

**I. Procedural History**

On December 22, 2010, Great Northern Utilities, Inc. (“Great Northern” or “GNUI”) filed revised tariff sheets in which it proposed a general increase in water rates to be effective February 5, 2011. These tariff sheets, hereinafter referred to as its “Filed Rate Schedule Sheets,” were identified as Ill. C. C. No. 3, Twelfth Revised Sheet No. 1, and Ill. C. C. No. 3, Original Sheet No. 1.1.

On December 30, 2010, Camelot Utilities, Inc. (“Camelot” or “CUI”) and Lake Holiday Utilities Corporation (“Lake Holiday” or “LHUC”) separately filed revised tariff sheets, hereinafter referred to as their “Filed Rate Schedule Sheets,” in which they proposed a general increase in water and sewer rates to be effective February 14, 2011. Camelot’s tariff sheets were identified as Ill. C. C. No. 3 (sewer), Seventh Revised Sheet No. 1; Ill. C. C. No. 3 (water), Eight Revised Sheet No. 1, and Ill. C. C. No. 3, Original Sheet No. 1.1. Lake Holiday’s tariff sheets were identified as Ill. C. C. No. 1, Ninth Revised Sheet No. 1, and Ill. C. C. No. 1, Original Sheet No. 1.1.

On January 20, 2011 and February 9, 2011, the Illinois Commerce Commission (“ICC” or the “Commission”) entered Orders suspending the Filed Rate Schedule Sheets to and including May 20, 2011 and May 29, 2011. On March 10, 2011, the Administrative Law Judge (“ALJ”) granted a motion to consolidate the cases. On May 4,

2011, the Commission resuspended the Filed Rate Schedule Sheets to and including November 20, 2011.

Notices of the proposed increase in water and sewer rates were posted and published in a newspaper of general circulation throughout each of the Companies' service areas in accordance with the requirements of Section 9-201 of the Public Utilities Act ("Act") and with the provisions of 83 Ill. Adm. Code Sec. 255. Great Northern, Camelot and Lake Holiday (collectively, the "Companies" or the "Utilities") also sent notice of the filing to customers in its first billing after the filing.

Leave to Intervene was granted to the Camelot Homeowner's Association ("the Association") and the Illinois Attorney General ("Attorney General" or "AG") (collectively the "Intervenors").

Pursuant to notice as required by the law and the rules and regulations of the Commission, an evidentiary hearing was held before a duly authorized Administrative Law Judge ("ALJ") of the Commission at its offices in Chicago, Illinois, on July 13 and 14, 2011. At the evidentiary hearing, the Utilities, Staff of the Commission ("Staff"), the Association and the Attorney General appeared and presented testimony. The record was subsequently marked "Heard and Taken."

The Companies presented the following witnesses: Bruce Haas, Regional Director of Operations for the Midwest Region of Utilities, Inc. ("UI" or the "Companies") and its subsidiaries; and Steven M. Lubertozi, Executive Director of Regulatory Accounting and Affairs for UI and its subsidiaries. Mr. Lubertozi adopted the direct testimony submitted by Lena Georgiev, who had submitted testimony as Regulatory Manager for the Atlantic and Midwest Regions of UI at the time the cases were filed.

The following witnesses testified on behalf of Staff: Phillip Rukosuev, Cheri Harden and Christopher Boggs of the Rates Department, Financial Analysis Division; William R. Johnson, Thomas Q. Smith and Jonathan M. Sperry of the Water Department, Financial Analysis Division; Mike Ostrander and Richard W. Bridal II of the Accounting Department, Financial Analysis Division; and Janis Freetly of the Finance Department, Financial Analysis Division. The Association offered the testimony of 19 residents in the Camelot Subdivision. The Attorney General offered the testimony of Roger D. Colton, a consultant and attorney.

At the hearing, the Companies and Staff advised the ALJ that they had entered into a Stipulation resolving all issues that had been disputed between the Companies and Staff. Pursuant to the Stipulation, the Companies agreed to Staff's recommended revenue requirement as well as the accounting adjustments recommended in the direct and rebuttal testimony of the Staff witnesses. Staff and the Companies agree that Schedules that are described in and accompany ICC Staff Ex. 10.0, and the water and sewer rates identified in the Stipulation should be adopted by the Commission. Neither the Association nor the Attorney General participated in the Stipulation. The Stipulation further provides that for purposes of this Docket only that all other outstanding issues

have been fully resolved and that no conditions, limitation or requirements shall be adopted or imposed upon the Companies other than those that the record show were recommended by Staff and accepted by the Companies. Staff and the Companies acknowledged that any resolution of issues raised in the case that is implicit within the agreed-upon revenue requirements and rates is agreed for purposes of settlement of this case only in order to conserve resources and reduce uncertainty, and would not bind them in any future consideration of the issues. The Companies prepared a Draft Order to which Staff, after reviewing it and suggesting revisions which were incorporated, stated that they had no objection to the entry of an Order incorporating the language of the Draft Order.

## **II. The Companies' Service Areas and the Nature of Operations**

The Companies are wholly-owned subsidiaries of UI, which owns and operates water and/or wastewater systems throughout the United States. Water Service Corporation ("WSC") manages the operations for all of UI's water and sewer systems, including GNUI, CUI and LHUC. WSC provides management, administration, engineering, accounting, billing, data processing, and regulatory services for the utility systems. WSC's expenses are assigned directly to an operating utility, or they are allocated to one or more of the various operating utilities, pursuant to a formula that has been approved by this Commission.

GNUI provides water service to approximately 360 customers in Winnebago County. GNUI's current water rate structure was approved pursuant to an Order, dated October 21, 1998, in Docket No. 98-0047. CUI provides water and sewer service to approximately 200 customers in Will County. CUI's current water and sewer rate structure was approved pursuant to an Order, dated July 8, 1993, in Docket No. 92-0345. LHUC provides water service to approximately 2000 customers in LaSalle County. LHUC's current water rate structure was approved pursuant to an Order, dated August 4, 1993, in Docket No. 92-0420.

## **III. Test Year**

Companies' filings are based on a historical test year ending December 31, 2009, with *pro forma* adjustments for known and measurable changes. Neither Staff nor Intervenor challenged the reasonableness of using the year 2009 as a historical test year.

The Commission concludes that the test year ending December 31, 2009, with adjustments for known and measurable changes, is appropriate for the purposes of this proceeding.

#### **IV. Rate Base**

In their testimony, the Companies presented evidence showing their original cost rate bases after pro forma adjustments for the test year ending December 31, 2009. Staff proposed various adjustments to the Companies' rate bases including adjustments to utility plant, accumulated depreciation, deferred charges, and working capital. The Companies accepted all of the Staff's recommended rate base adjustments. The Intervenor's testimony proposed no specific adjustment to rate base.

Staff's recommended adjustments are reflected in Appendices \_\_\_\_\_, and can be summarized as follows:

- (a) Adjustments to remove deferred charges from the Companies' rate base because the Commission has not authorized the deferral. The instructions to Account 186, Miscellaneous Deferred Debits, require the Commission's authority for the deferral of costs. The Companies did not contest these adjustments.
- (b) Adjustments to correct GNUI's accumulated depreciation, for the misclassification of land as a depreciable asset. Land has no depreciable value and therefore should have been recorded in Account 303, Land and Land Rights. Great Northern did not contest this adjustment.
- (c) An adjustment to reduce CUI's test year utility plant amount for utility plant that has been retired and corresponding adjustments to accumulated depreciation and depreciation expense.
- (d) Adjustments to reflect the changes in CUI's water utility plant, accumulated depreciation, accumulated deferred income taxes, and test year depreciation expense due to the reclassification of the estimated costs of capital projects from deferred charges to pro forma plant additions. These capital projects qualify as pro forma plant additions and along with the other components of rate base, are known and measurable, reasonably certain to occur subsequent to the 2009 historical test year and within 12 months after the filing date of the tariffs, and the amounts are determinable;
- (e) Adjustments to reflect the changes in LHUC's utility plant, accumulated depreciation, and test year depreciation expense due to the removal of a pro forma plant addition. In its initial filing, LHUC classified a ground storage tank pro forma plant addition as a deferred charge. The Company subsequently acknowledged that the ground storage tank project has been moved to a future date due to budget constraints.

- (f) An adjustment to reflect the deferred cost of tank painting, net of amortization, in LHUC's rate base. The costs incurred for the tank painting are deferred and amortized over the expected life of the improvement of the asset.
- (g) Adjustments to the Companies' working capital, which the Companies calculated by using the 1/8<sup>th</sup> method, to remove real estate taxes and to incorporate the effects of other Staff proposed adjustments to the Companies' operating expenses.

With respect to depreciation expense for the test year ending December 31, 2009, the Companies proposed moving from composite water and sewer depreciation rates to separate water and sewer depreciation rates for each primary account. Staff witness Johnson reviewed the Companies' proposed depreciation rates and proposed some adjustments to the Companies' proposed depreciation rates. The Companies agreed with Staff's proposed depreciation rate adjustments. The resulting depreciation rates are identified on ICC Staff Ex. 9.0, Schedules 9.01 C-W, 9.01 C-S, 9.01 GN, and 9.01 LH.

As part of the Stipulation, the Staff and the Companies agreed that the record supported entering an order using the Companies' proposed rate base as adjusted by the Staff.

### **Commission Conclusion on Rate Base**

The Commission adopts the Stipulation and finds that the proposed water and sewer depreciation rates set forth in ICC Staff Exhibit 9.0, Schedules 9.01 C-W, 9.01 C-S, 9.01 GN, and 9.01 LH are reasonable and should be approved.

The Commission finds that the adjustments to the rate base proposed in Staff's exhibits are supported by the evidence, are reasonable, and should be adopted. Upon giving effect to these adjustments, the rate base may be summarized as follows:

#### **GNUI Approved Rate Base**

	<u>Water</u>
Gross Plant in Service	\$1,810,228
Less: Accumulated Depreciation and Amortization	<u>(\$327,093)</u>
Net Plant	\$1,483,135
 Additions to Rate Base	
Working Capital	\$15,430
ADIT Regulatory Asset	\$1,071
 Deductions from Rate Base	
Contributions in Aid of Construction	(\$94,720)

Accumulated Deferred Income Taxes	(\$40,972)
Customer Deposits	(\$41)
Adjustments to Rate Base Allocations	(\$22)
Rate Base	<u>\$1,363,881</u>

### **CUI Approved Rate Base**

	<u>Water</u>	<u>Sewer</u>
Gross Plant in Service	\$1,301,286	\$1,096,608
Less: Accumulated Depreciation and Amortization	<u>(\$143,621)</u>	<u>(\$292,460)</u>
Net Plant	\$1,157,665	\$804,148
Additions to Rate Base		
Working Capital	\$10,851	\$13,179
ADIT Regulatory Asset	\$2,676	\$5,723
Deductions from Rate Base		
Contributions in Aid of Construction	(\$54,284)	(\$81,162)
Accumulated Deferred Income Taxes	(\$114,081)	(\$114,327)
Adjustments to Rate Base Allocations	(\$13)	(\$13)
Rate Base	<u>\$1,002,814</u>	<u>\$627,548</u>

### **LHUC Approved Rate Base**

	<u>Water</u>
Gross Plant in Service	\$2,887,203
Less: Accumulated Depreciation and Amortization	<u>(\$1,010,528)</u>
Net Plant	\$1,876,675
Additions to Rate Base	
Working Capital	\$49,404
Deferred Charges	\$117,000
ADIT Regulatory Asset	\$9,919
Deductions from Rate Base	
Contributions in Aid of Construction	(\$296,168)
Accumulated Deferred Income Taxes	(\$135,003)
Adjustments to Rate Base Allocations	(\$126)
Rate Base	<u>\$1,621,701</u>

Finally, Staff recommended that the Commission include the following provisions in this Order:

IT IS FURTHER ORDERED that the \$1,094,887 original cost of the sewer plant in service for CUI on December 31, 2009, as reflected on Camelot's Schedule C, column "Per Books", is unconditionally approved as the sewer original costs of plant.

IT IS FURTHER ORDERED that the \$1,019,565 original cost of the water plant in service for CUI on December 31, 2009, as reflected on Camelot's Schedule C, column "Per Books" net of Staff adjustments, is unconditionally approved as the water original costs of plant.

IT IS FURTHER ORDERED that the \$1,806,527 original cost of the water plant in service for GNUI on December 31, 2009, as reflected on Great Northern's Schedule C, column "Per Books", is unconditionally approved as the water original costs of plant.

IT IS FURTHER ORDERED that the \$2,886,381 original cost of the water plant in service for LHUC on December 31, 2009, as reflected on Lake Holiday's Schedule C, column "Per Books", is unconditionally approved as the water original costs of plant.

**V. Operating Revenues, Expenses, and Operating Income**

In its direct testimony, the Companies' *pro forma* operating revenues, expenses and income for the test year ended December 31, 2009, were as follows:

**CAMELOT**

**Sewer**

Operating Revenue:	\$213,388
Operating Expense:	\$160,060
Net Operating Income:	\$31,706
Revenue Change:	\$106,981

**Water**

Operating Revenue:	\$266,748
Operating Expense:	\$182,935
Net Operating Income:	\$49,791
Revenue Change:	\$191,154

### **LAKE HOLIDAY**

#### **Water**

Operating Revenue:	\$778,198
Operating Expense:	\$623,294
Net Operating Income:	\$92,291
Revenue Change:	\$335,958

### **GREAT NORTHERN**

#### **Water**

Operating Revenue:	\$366,153
Operating Expense:	\$249,602
Net Operating Income:	\$69,251
Revenue Change:	\$274,775

Staff proposed various adjustments to Companies' *pro forma* operating statements. The Intervenor's testimony proposed no specific adjustments to operating expenses. Staff's adjustments are identified below and are reflected in Appendix \_\_\_\_\_:

- (a) An adjustment to disallow increases to expenses that are based on an inflation factor, which are not appropriate pursuant to 83 Ill. Adm. Code 287.40.
- (b) An adjustment to remove the Gross Revenue tax (also known as the Public Utility Fund tax) from the Companies' revenue requirement because it is not an actual operating expense of the utility and should not be included in tariffed rates. Staff recommended that the Companies collect the tax as a separate charge on customers' bills when the rates approved in this docket go into effect. In conjunction with this change, the following language should be added to the Companies' tariffs:

#### **ANNUAL GROSS REVENUE TAX RECOVERY CHARGE**

Section 9-222 of "The Public Utilities Act," as amended, authorizes a utility to recover from its Customers its liabilities to the State of Illinois for Public Utility Annual Gross Revenue Tax imposed by Section 2-202 of "The Public Utilities Act," as amended. Pursuant to Section 9-222, the Company shall charge an Additional Charge for the Public Utility Annual Gross Revenue Tax equal to 0.1 % of all



billings under this rate schedule except for (a) this Additional charge for Public Utility Annual Gross Revenue Tax, (b) the Additional Charge for any Municipal Utility Tax, and (c) any other billings and billing items excluded from the base of the Public Utility Annual Gross Revenue Tax.

- (c) Adjustments to correct the amount of WSC expenses allocated to the Companies. The original filing allocated WSC expenses using outdated, 2008 allocation factors. The adjustment corrects the allocations by using the appropriate 2009 allocation factors.
- (d) Adjustments to reflect the impact of the increase in the Illinois State Income Tax ("SIT") rate from 7.3% to 9.5%, effective January 1, 2011, as follows: (1) Increase state income tax expense; (2) Increase Accumulated Deferred Income Tax ("ADIT") for the shortfall resulting from the tax rate increase, to be recognized as a decrease to rate base; (3) Create a corresponding regulatory asset for the future recovery of that additional ADIT liability, to be recognized as an increase to rate base; and (4) Amortize the regulatory asset ratably over the remaining life of the depreciable assets that gave rise to the ADIT.
- (e) Adjustments to rate case expense to: (1) adjust the estimate for legal fees, (2) adjust costs for customer notices, FedEx, mailings, postage, and miscellaneous costs, (3) remove travel costs, (4) decrease the cost of WSC personnel, (5) adjust consulting fees, and (6) change the amortization period for rate case expense to five years from the three years proposed by the Companies. In rebuttal testimony, the Companies provided additional detailed explanations of how the Companies account for rate case expense, and provided updated information on incurred rate case expense as of the filing of their rebuttal testimony, along with an estimate of rate case expenses through the conclusion of the proceedings. Staff accepted rate case expense as set forth in GNUI/CUI/LHUC Ex. 3.0 subject to one recommendation. Staff recommends the Commission order the Companies, and all related UI public utilities regulated in Illinois, to provide in direct testimony in future rate cases a detailed explanation of how Utility and WSC salaries are determined in total, allocated to the individual Utility, and directly charged to rate case expense and other "cap time" categories, accordingly.
- (f) An adjustment to decrease CUI's maintenance expenses because the unaccounted-for water percentage exceeded the maximum as defined by CUI's tariff. This adjustment limits the costs ratepayers

bear for unaccounted-for water to what the Commission has set forth as reasonable in the tariff.

- (g) An adjustment to income taxes for interest synchronization.
- (h) Adjustments based on the gross revenue conversion factor.

The Commission accepts the Stipulation of the Staff and the Companies and finds that the adjustments to operating revenues, expenses (including taxes) and utility operating income, as proposed in Staff's exhibits, are supported by the evidence, are reasonable, and should be adopted. In addition, the Commission finds that the amounts of compensation for attorneys and technical experts to prepare and litigate this proceeding, as adjusted by Staff, are just and reasonable pursuant to Section 9-229 of the Act, 220 ILCS 5/9-229.

Upon giving effect to the Stipulation incorporating these adjustments, the Commission concludes that the Companies' *pro forma* operating revenues, expenses and income, at the approved rates, for the test year ended December 31, 2009, are as follows and are attached in Appendix \_\_\_\_\_, hereto:

### **CAMELOT**

#### **Sewer**

Operating Revenues	\$201,134
Operating Expenses	<u>\$152,759</u>
Utility Operating Income	\$48,375
Revenue Change	\$84,109

#### **Water**

Operating Revenues	\$238,377
Operating Expenses	<u>\$161,074</u>
Utility Operating Income	\$77,303
Revenue Change	\$151,953

### **GREAT NORTHERN**

#### **Water**

Operating Revenues	\$323,168
Operating Expenses	<u>\$218,032</u>
Utility Operating Income	\$105,136

Revenue Change	\$231,287
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## **LAKE HOLIDAY**

### **Water**

Operating Revenues	\$677,195
Operating Expenses	<u>\$522,184</u>
Utility Operating Income	\$125,011

Revenue Change	\$212,097
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## **VI. Rate of Return**

### **A. Capital Structure**

Because the Companies are wholly owned subsidiaries of UI, Staff proposed using UI's capital structure for the year ending December 31, 2009. The capital structure is summarized below:

<u>Component</u>	<u>Ratio</u>
Short term debt	6.45%
Long term debt	48.75%
Common Equity	<u>44.80%</u>
Total	100.00%

### **B. Embedded Cost of Debt**

Staff estimated that the Companies' cost of short-term debt is 2.85%. The Companies' embedded cost of long-term debt is 6.65%.

### **C. Cost of Common Equity**

Staff recommended a 9.56% cost of common equity for the Companies. Staff measured the investor-required rate of return for UI with the discounted cash flow ("DCF") and risk premium models. DCF and risk premium models cannot be directly applied to UI because its stock is not market-traded. Therefore, Staff applied those models to water utility and public utility samples deemed comparable in risk to the Companies.

#### **1. DCF Analysis**

DCF analysis assumes that the market value of common stock equals the present value of the expected stream of future dividend payments to the holders of that stock. Since a DCF model incorporates time-sensitive valuation factors, it must correctly reflect the timing of the dividend payments that a stock price embodies. The companies in Staff's water and utility samples pay dividends quarterly. Staff therefore employed a constant-growth DCF model that reflects a quarterly frequency in dividend payments.

Staff used market-consensus expected growth rates published by Zacks as of March 8, 2011. The growth rate estimates were combined with the closing stock prices and dividend data as of March 8, 2011. Based on these growth assumptions, stock price, and dividend data, Staff's DCF estimate of the cost of common equity was 8.59% for the water sample and 9.45% for the utility sample.

## **2. Risk Premium Analysis**

According to financial theory, the required rate of return for a given security equals the risk-free rate of return plus a risk premium associated with that security. Staff used a one-factor risk premium model, the Capital Asset Pricing Model ("CAPM"), to estimate the cost of common equity.

The CAPM requires the estimation of three parameters: beta, the risk-free rate, and the required rate of return on the market. For the beta parameter, Staff combined adjusted betas from Value Line, Zacks, and a regression analysis to estimate the beta of the water and utility sample. For the water sample, the average Value Line, Zacks, and regression beta estimates were 0.69, 0.59 and 0.56, respectively. For the utility sample, the average Value Line, Zacks, and regression beta estimates were 0.64, 0.59 and 0.55, respectively. The Value Line regression employs weekly observations of stock return data while both the regression beta and Zacks betas employ monthly observations. Since the Zacks beta estimate and the regression beta estimate are calculated using monthly data rather than weekly data (as Value Line uses), Staff averaged those results to avoid over-weighting betas estimated from monthly data in comparison to the weekly data-derived Value Line betas. Staff then averaged the resulting monthly beta with the Value Line weekly beta, which produced a beta of 0.63 for the water sample and 0.61 for the utility sample.

For the risk-free rate parameter, Staff considered the 0.07% yield on four-week U.S. Treasury bills and the 4.71% yield on thirty-year U.S. Treasury bonds. Both estimates were measured as of March 8, 2011. Forecasts of long-term inflation and the real risk-free rate imply that the long-term risk-free rate is between 4.5% and 5.3%. Staff concluded that the U.S. T-bond yield is currently the superior proxy for the long-term risk-free rate.

Finally, for the expected rate of return on the market parameter, Staff conducted a DCF analysis on the firms composing the S&P 500 Index. That analysis estimated that the expected rate of return on the market was 12.74% for the fourth quarter of

2010. Inputting those three parameters into the CAPM, Staff calculated a cost of common equity estimate of 9.77% for the water sample and 9.61% for the utility sample.

### **3. Staff Cost of Equity Recommendation**

Staff estimated the investor-required rate of return on common equity for the two samples from the results of the DCF and risk premium analyses for the samples. The average investor required rate of return on common equity for the Water sample, 9.18%, is based on the average of the DCF-derived results (8.59%) and the risk premium-derived results (9.77%). The average investor required rate of return on common equity for the Utility sample, 9.53%, is based on the average of the DCF-derived results (9.45%) and the risk premium-derived results (9.61%). The investor required rate of return on common equity for the Companies, 9.56%, is based on the average for the water and utility samples adjusted upward 20 basis points to reflect the higher risk of UI relative to each of the samples.

### **D. Commission Analysis and Conclusions**

The Commission finds the Stipulation reasonable and the Commission concludes the Companies' cost of equity capital is 9.56% and its overall cost of capital is 7.71% as proposed in Staff's exhibits.

The cost of capital is summarized as follows:

<u>Source of capital</u>	<u>Amount</u>	<u>Percentage</u>	<u>Cost</u>	<u>Weighted Cost</u>
Short-term debt	\$23,636,684	6.45%	2.85%	0.18%
Long-term debt	\$178,726,842	48.75%	6.65%	3.24%
Common Equity	<u>\$164,229,938</u>	<u>44.80%</u>	<u>9.56%</u>	<u>4.28%</u>
Total	\$366,593,464	100.00%		7.71%

## **VII. Rate Design/Tariff Terms**

### **A. Rate Design and Billing Cycle**

Staff found the Companies' rate design proposals reasonable, but recommended the Commission set the rates based upon Staff's proposed revenue requirement, by multiplying the Companies' proposed customer and usage charges by the ratio of Staff's proposed revenue requirement to the Companies' proposed revenue requirement across-the-board.

The Commission finds the development and design of the rates in the manner recommended by the Stipulation incorporating Staff's recommendations are reasonable and should be accepted.

## **B. Miscellaneous**

### **1. After-Hours Call-Out Charge**

The Companies proposed to establish an After-Hours Call-Out charge. The Companies proposed a minimum rate to be equal to two hours of current labor rate or \$106. For all time accumulated above the two-hour minimum, the Companies proposed to bill customers at the rate of \$53 per hour. In response to a Staff Data Request, the Companies documented the average operator overtime costs and customer service costs to process the overtime request, and round-trip mileage to premises. Furthermore, in response to the Staff Data Request, the Companies stated that such a minimum charge would act as a deterrent in instances when a customer calls and requests service to an issue that can be otherwise handled during normal business hours. Staff stated the Companies had demonstrated the charge is reasonable and recommended approving the After-Hours Call-Out charge.

### **2. Reconnection Charge**

The Companies proposed to increase their reconnection charges from \$20 to \$37.50 to recover the current average cost of labor for one hour of employee time to provide the reconnection service. Based on a review of the data provided by the Companies, Staff determined that the proposed increase is reasonable and recommended the increases be approved.

### **3. Non-Sufficient Funds Charge**

The Companies proposed to increase the Non-Sufficient Funds ("NSF") Check charge from \$7 (\$10 for GNUI) to \$25. In direct testimony, Staff stated that, based on the information provided, the \$25 NSF charge proposed by the Companies is reasonable and should be approved.

### **4. New Customer Charge**

The Companies proposed to increase the charge for a new service application from \$15 to \$25. Based on a review of the data provided by the Companies, Staff determined that the proposed increase is reasonable and recommended the increase be approved.

### **5. Billing Cycles**

LHUC proposed to change the billing cycle for usage customers from quarterly to monthly and to keep billing availability customers on a quarterly basis as is currently the case. CUI proposed to change the billing cycle for all Camelot customers from bi-monthly to monthly. The Companies stated that a monthly billing cycle will enable these utilities to provide better service to customers. The advantages included customers being able to properly budget for water and wastewater utility expenses, expeditious

detection of customer concerns and resolution of system problems, and shorter response times to unaccounted for water and water loss issues because those issues could be looked into and resolved on a monthly basis versus a quarterly or bi-monthly basis, as the primary reasons for the proposed changes. Because the availability customers for Lake Holiday would have minimal monthly bills, continuing quarterly billing would be more cost effective and would allow its availability customers the convenience of writing four checks a year instead of twelve. Staff agreed that the benefits of the billing cycle changes listed above will improve the efficiency of the quality of service the Companies can provide to their customers and recommends the Commission approve this modification.

## **6. Customer Bill Form**

CUI and LHUC currently have bill forms on file as tariff sheets, although they will be outdated at the conclusion of this consolidated rate case. GNUI, however, does not have a bill form on file currently as a tariff sheet. Staff noted that electric and gas utilities are already required to have their bill forms filed as a tariff sheet, and it would be useful to customers, Staff, and the Commission for water and sewer utilities to do likewise. Having the bill form as a filed tariff sheet is desirable because it would provide openness and transparency of billing information to the utility customers, to the Commission and the general public. Staff recommended that the Commission require GNUI to provide a copy of its bill form as a filed tariff sheet.

## **7. Tariff Updates**

LHUC's current Schedule of Rates for Water Service tariff sheets have various effective dates that include August 31, 1966, October 24, 1980, August 31, 1991, August 11, 1993, and February 12, 2007. GNUI's current Schedule of Rates for Water Service tariff sheets have various effective dates that include December 5, 1975, November 14, 1998 and February 12, 2007. CUI's current Schedule of Rates for Water Service tariff sheets have various effective dates that include April 12, 1977, April 15, 1977, October 24, 1980, September 21, 1984, August 31, 1991, July 19, 1993, and February 12, 2007. CUI's current Schedule of Rates for Sewer Service tariff sheets have various effective dates that include April 15, 1977, September 21, 1984, August 31, 1991, and July 19, 1993. Staff recommends that all tariff sheets included in the Companies Schedule of Rates for Water Service be filed as part of their compliance filings. Their current Schedule of Rates for Water Service tariffs (ILL. C.C. No. 1, Eighth Revised Sheet No. 1 for LHUC; ILL. C.C. No. 3, Eleventh Revised Sheet No. 1 for GNUI; and ILL. C.C. No. 3, Seventh Revised Sheet No. 1 for CUI) and Sewer Service tariffs (ILL. C.C. No. 3, Sixth Revised Sheet No. 1 for CUI) should be replaced with updated rates and the miscellaneous tariff charges. Staff also recommended that all filed tariff sheets for each of the Companies have a uniform and standard presentation.

Currently GNUI has a construction fee that is described in its Rules, Regulations, and Conditions of Service tariffs for water service. This fee is not addressed on their current or proposed rate tariff sheet, and is not included in Staff's proposed Rules,

Regulations, and Conditions of Service tariffs for water service. In Staff's opinion, rates should be separately stated on rate tariff sheets for the convenience of customers and so there is no confusion about what water rates apply. Staff proposed that this \$10 charge be included within GNUI's Schedule of Rates for Water Service as part of its compliance filing. Additionally, LHUC currently lists a \$400 installation fee in its Rules, Regulations, and Conditions of Service tariffs for water service. Staff recommended that this charge be included within LHUC's Schedule of Rates for Water Service as part of its compliance filing. CUI currently lists a \$200 connection charge per PE ("Population Equivalent") in its Rules, Regulations, and Conditions of Service tariffs for sewer service. Staff recommended that this charge be included within CUI's Schedule of Rates for Sewer Service as part of its compliance filing. This recommendation is consistent with Staff's recommendation that all of the Companies' rate charges be placed in the Companies' rate tariffs.

LHUC and CUI have tariff sheets that cancel riders pursuant to the Orders in Docket Nos. 87-0601 and 87-0556, respectively, which dismissed proceedings investigating the ratemaking impact of the Tax Reform Act of 1986. Staff recommends the Commission order LHUC and CUI to remove these sheets. These respective Riders have all been cancelled pursuant to the Commission's prior Orders, so including them in LHUC's or CUI's updated tariff sheets serves no purpose.

### **C. RULES, REGULATIONS, AND CONDITIONS OF SERVICE TARIFFS**

Staff proposed new Rules, Regulations, and Conditions of Service Tariffs for sewer and water service for CUI, (ICC Staff Exhibits 8.1 and 8.2, respectively) and new Rules, Regulations, and Conditions of Service Tariffs for water service for GNUI (ICC Staff Exhibit 7.0, Attachment 7.01 GN) and LHUC (ICC Staff Exhibit 9.0, Attachment 9.01 LH). The Companies agreed with Staff's proposed Rules, Regulations, and Conditions of Service Tariffs for water and sewer service and attached them to its Rebuttal Testimony as GNUI/CUI/LHUC Exhibit 3.0, Exhibit 3.2.

### **D. Commission Analysis and Conclusions**

The Commission finds the rate design principles and cost-of-service methodologies proposed in Staff's testimony, and the development and design of the rates in the manner proposed by Staff are reasonable. We conclude, therefore, that they should be adopted.

The Commission concludes that the Stipulation incorporating Staff's proposed rates are reasonable and should be approved for the Companies. The Companies are directed to file the rates set forth in this Section. The filed tariffs should have an effective date of not less than five (5) business days after the date of filing with the office of the Clerk of the Commission, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period, if necessary.



## **VIII. Findings and Ordering Paragraphs**

The Commission, having given due consideration to the entire record herein and being fully advised in the premises, is of the opinion that the Stipulation submitted by the Staff and the Companies is hereby approved and the Commission further finds consistent with the Stipulation that:

- (1) GNUI, CUI and LHUC provide water or water and sewer service within the State of Illinois and, as such, are public utilities within the meaning of the Act;
- (2) the Commission has jurisdiction over the Companies and the subject-matter herein;
- (3) the recitals of fact and conclusion reached in the prefatory portion of this Order are supported by the evidence and are hereby adopted as findings of fact;
- (4) a test year ending December 31, 2009 should be adopted for the purpose of this rate proceeding;
- (5) for the test year ending December 31, 2009 and for the purposes of this proceeding, the rate bases for the Companies are as follows:

Great Northern – Water:	\$1,363,881
Camelot – Water:	\$1,002,814
Camelot – Sewer:	\$627,548
Lake Holiday – Water:	\$1,621,701

The \$1,806,527 original cost of water plant for GNUI at December 31, 2009, as reflected on Great Northern's Schedule C, Column Per Books, is unconditionally approved as the original costs of plant;

The \$1,094,887 original cost of sewer plant for CUI at December 31, 2009, as reflected on Camelot's Schedule C, Column Per Books, is unconditionally approved as the original costs of plant;

The \$1,019,565 original cost of water plant for CUI at December 31, 2009, as reflected on Camelot's Schedule C, Column Per Books net of Staff adjustments, is unconditionally approved as the original costs of plant;

The \$2,886,381 original cost of water plant for LHUC at December 31, 2009, as reflected on Lake Holiday's Schedule C, Column Per Books, is unconditionally approved as the original costs of plant;

- (6) a fair and reasonable rate of return on the Companies' rate bases is 7.71%; this rate of return reflects a fair and reasonable return on common equity of 9.56%; rates should be set to allow the Companies an opportunity to earn that rate of return on its rate base, as determined herein;
- (7) Staff's recommendations with respect to the rate design in this docket should be allowed;
- (8) the Companies' rates, which are presently in effect are insufficient to generate the operating income necessary to permit the Companies to earn a fair and reasonable rate of return and those rates and should be permanently canceled and annulled as of the effective date of the new tariffs allowed in this Order;
- (9) the rates proposed by the Companies in this proceeding would produce rates in excess of that which is fair and reasonable; the Companies' proposed rates should be rejected and the design of the rates in the manner proposed by Staff is reasonable and should be adopted;
- (10) GNUI, CUI and LHUC should be permitted to file new tariff sheets setting forth the rates designed to produce annual operating revenues as follows:

Great Northern – Water:	\$323,168
Camelot – Water:	\$238,377
Camelot – Sewer:	\$201,134
Lake Holiday – Water:	\$677,195

as such revenues are necessary to provide the Companies a rate of return of 7.71% on their rate bases, consistent with the findings herein; these tariff sheets shall be applicable to service furnished on or after the effective date;

- (11) the Staff proposed rates contained in Section VII hereto are designed in accordance with the rate design determinations made in the prefatory portion of this Order herein above; the Companies should be authorized to file new tariffs setting forth the rates and

charges contained in Section VII, effective for all service rendered on and after five (5) business days after filing, with the tariff sheets to be corrected within that time period, if necessary, except as is otherwise required by Section 9-201(b) of the Act as amended;

- (12) the proposed water and sewer depreciation rates by Staff (Identified in ICC Staff Ex. 9.0, Schedules 9.01 C-W, 9.01 C-S, 9.01 GN, and 9.01 LH) are approved;
- (13) the Companies shall otherwise perform all actions that this Order requires of it;
- (14) As a stipulated settlement, the findings and conclusions in this Order shall not be binding on Staff or the Companies in any other proceeding;
- (15) the proposed Rules, Regulations, and Conditions of Service tariffs for water and sewer service proposed by Staff and accepted by the Companies are approved.

IT IS THEREFORE ORDERED by the Commission that the tariff sheets proposing a general increase in water and sewer rates filed by GNUI, CUI and LHUC on December 22 and 30, 2010 be, and the same are hereby, permanently canceled and annulled.

IT IS FURTHER ORDERED that the Companies file new tariffs within five (5) business days of the Order, with an effective date of not less than five (5) business days after the date of filing, except as otherwise authorized by Section 9-201(b) of the Act amended, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period if necessary. The rates will be in accordance with Findings and Ordering Paragraphs 10 and 11 and Section VII herein. Said new tariff sheets shall cancel GNUI's Ill. C. C. No. 3, Eleventh Revised Sheet No. 1; CUI's Ill. C. C. No. 3 (sewer), Sixth Revised Sheet No. 1 and Ill. C. C. No. 3 (water), Seventh Revised Sheet No. 1; and LHUC's Ill. C. C. No. 1, Eight Revised Sheet No. 1, with the cancellation date being the same as with the effective date of the new rate tariffs.

IT IS FURTHER ORDERED that the new rate tariffs include provisions for the collection of the Gross Revenue tax (also known as the Public Utility Fund tax) as a separate charge on customers' bills when the rates authorized in this docket go into effect. In conjunction with this change, the following language should be added to the Companies' tariffs:

#### ANNUAL GROSS REVENUE TAX RECOVERY CHARGE

Section 9-222 of "The Public Utilities Act," as amended, authorizes a utility to recover from its Customers its liabilities to the State of Illinois for Public Utility Annual Gross Revenue Tax imposed by Section 2-202 of "The Public Utilities Act," as amended. Pursuant to Section 9-222, the Company shall charge an Additional Charge for the Public Utility Annual Gross Revenue Tax equal to 0.1 % of all billings under this rate schedule except for (a) this Additional charge for Public Utility Annual Gross Revenue Tax, (b) the Additional Charge for any Municipal Utility Tax, and (c) any other billings and billing items excluded from the base of the Public Utility Annual Gross Revenue Tax.

IT IS FURTHER ORDERED that the \$1,806,527 original cost of the water plant in service for GNUI at December 31, 2009, as reflected on Great Northern's Schedule C, column Per Books, less GNUI and Staff adjustments, is unconditionally approved as the water original costs of plant.

IT IS FURTHER ORDERED that the \$1,094,887 original cost of the sewer plant in service for CUI at December 31, 2009 as reflected on Camelot's Schedule C, column Per Books, less CUI and Staff adjustments, is unconditionally approved as the sewer original costs of plant.

IT IS FURTHER ORDERED that the \$1,019,565 original cost of the water plant in service for CUI at December 31, 2009, as reflected on Camelot's Schedule C, column Per Books, less CUI and Staff adjustments, is unconditionally approved as the water original costs of plant.

IT IS FURTHER ORDERED that the \$2,886,381 original cost of the water plant in service for LHUC at December 31, 2009, as reflected on Lake Holiday's Schedule C, column Per Books, less LHUC and Staff adjustments, is unconditionally approved as the water original costs of plant.

IT IS FURTHER ORDERED that the Companies, and all related Utilities, Inc. public utilities regulated in Illinois, shall provide in direct testimony in future rate cases a detailed explanation of how Utility and WSC salaries are determined in total, allocated to the individual Utility, and directly charged to rate case expense and other "cap time" categories.

IT IS FURTHER ORDERED that any petitions, objections or motions made in this proceeding, and not otherwise specifically disposed of herein, are hereby disposed of in a manner consistent with the conclusions contained herein.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code Sec. 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this \_\_\_\_ day of \_\_\_\_\_, 2011.

(SIGNED) DOUG SCOTT

Chairman